

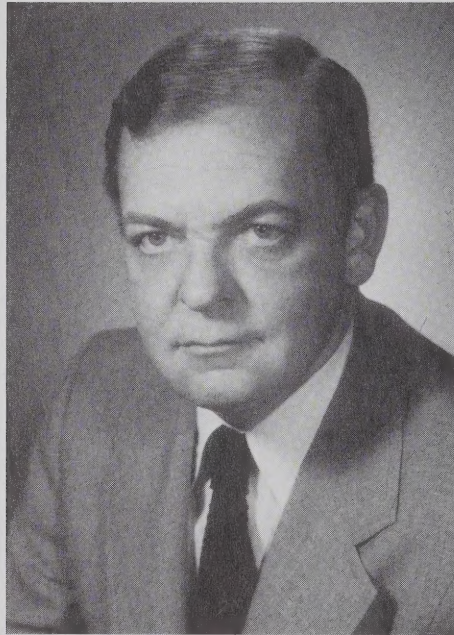
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Somerville

1975

Report to Shareholders



A combination of circumstances, including the generally slow economy, customer over-buying during the material shortages of 1974 and a prolonged strike in one of our major manufacturing plants resulted in 1975 consolidated net sales of \$61,530,000 – a reduction of \$117,000 from the all-time record established in the previous year.

Packaging sales reached \$46,554,000 and were \$1,563,000, or 3.5% higher than in 1974. Other segments of the Company showed sales of \$14,976,000 – a reduction of \$1,680,000, or 10.1% from 1974 volume.

Net income for 1975, at \$1,835,000, was below 1974 earnings by \$960,000. The factors mentioned above and particularly the lengthy strike, are chiefly responsible for the diminished profit performance.

In addition, the Packaging Divisions experienced increased labour and material costs. In some product lines, because of highly competitive situations, these could not be reflected in pricing.

The Automotive Products Division continued to experience extremely strong competitive pressures as a result of the narrowing automotive market. Real progress was made in diversification into other areas of compression moulding involving business machine cabinetry and other non-automotive applications. The Division turned a substantial loss in 1974 into a marginal profit in 1975. Other operations, such as Plastics, Merchandising Services and Games, turned in satisfactory performances.

Capital expenditures for the year amounted to only \$822,000 because of deferred purchases of certain major equipment replacements. The bulk of the expenditures was on behalf of the Packaging and Plastics Divisions. Substantially accelerated expenditures will occur in 1976 in order to take advantage of technological improvements available to us.

A \$784,000 improvement in working capital was recorded in 1975. This was the result of limitation of fixed asset purchases, pending implementation of our 1976 capital program.

While most basic supply problems now appear to have been solved, there is some concern about increasing costs of many of our major raw materials. In addition, the Company faces collective bargaining with seven unionized groups. In spite of these and other economic uncertainties, improvements in both sales and income are expected for 1976.

It is a pleasure to thank all those employees who contributed to the performance of the Company during the past year. Their continuing support will be a vital factor in reaching our 1976 objectives.

I. A. MacDonald
President and
Chief Executive Officer

Consolidated Balance Sheet

Somerville Industries Limited
(Incorporated under the laws of Canada)
As at December 31, 1975
(in thousands of dollars)

Assets	1975	1974
Current assets		
Cash	\$ 12	\$ 7
Accounts receivable (note 2)	8,232	7,432
Inventories (note 3)	14,817	15,598
Prepaid expenses	138	172
	23,199	23,209
Investments		
Shares in 50% owned company—Mastico Industries Limited—at equity value	387	431
Sinking fund re preferred shares—government and industrial bonds at market values (cost—\$115,405)	108	101
	495	532
Fixed assets (note 4)		
Land, buildings and equipment	25,007	24,376
Less accumulated depreciation	15,019	14,201
	9,988	10,175
Unamortized debt financing costs	232	245
	\$33,914	\$34,161

Approved by the Board
J. G. Church, Director
I. A. MacDonald, Director

Liabilities	1975	1974
Current liabilities		
Bank advances	\$ 3,157	\$ 3,567
Accounts payable and accrued liabilities (note 2)	3,513	3,099
Taxes payable	379	1,253
Dividends payable	22	22
Long term debt payable within one year	176	100
	7,247	8,041
Long term debt (note 5)	8,300	8,476
Deferred income taxes	2,476	2,447
Shareholders' equity		
Capital stock (note 6)	1,916	1,934
Retained earnings (note 7)	13,053	12,341
Excess of appraised value of fixed assets over cost	922	922
	15,891	15,197
	\$33,914	\$34,161

Consolidated Statement of Retained Earnings

Somerville Industries Limited
Year ended December 31, 1975
(in thousands of dollars)

	1975	1974
Retained earnings at beginning of year	\$12,341	\$11,093
Net income for the year	1,835	2,795
	14,176	13,888
Dividends declared		
Preferred shares	88	89
Common shares	1,035	1,458
	1,123	1,547
Retained earnings at end of year	\$13,053	\$12,341

Consolidated Statement of Income

Somerville Industries Limited
Year ended December 31, 1975
(in thousands of dollars)

	1975	1974
Sales	<u>\$61,530</u>	\$61,647
Costs and expenses		
Cost of sales, selling and administrative expenses before the following items	57,102	55,097
Depreciation	1,009	1,029
Interest on long term debt	706	712
Other interest	271	288
Amortization of debt financing costs	13	14
	<u>59,101</u>	57,140
Income from operations	2,429	4,507
Equity in net income of Mastico Industries Limited	486	261
Income before income taxes	2,915	4,768
Income taxes	1,080	1,973
Net income for the year	<u>\$ 1,835</u>	\$ 2,795
Earnings per common share	<u>\$ 4.90</u>	\$ 7.59

Consolidated Statement of Changes in Financial Position

Somerville Industries Limited
Year ended December 31, 1975
(in thousands of dollars)

	1975	1974
Working capital derived from		
Operations		
Net income for the year	\$ 1,835	\$ 2,795
Items not involving working capital		
Depreciation	1,009	1,029
Deferred income taxes	29	204
Net decrease (increase) in equity in Mastico Industries Limited	44	(21)
Amortization of debt financing cost	13	14
	2,930	4,021
Working capital applied to		
Purchase of fixed assets (net of disposals)	822	896
Purchase of preferred shares for cancellation	18	51
Dividends declared	1,123	1,547
Reduction in long term debt	176	100
Other items (net)	7	1
	2,146	2,595
Increase in working capital	784	1,426
Working capital at beginning of year	15,168	13,742
Working capital at end of year	\$15,952	\$15,168

Notes to Consolidated Financial Statements

Somerville Industries Limited
December 31, 1975

1. Summary of significant accounting policies

(a) Basis of consolidation

The consolidated financial statements include the accounts of Canadian Folding Cartons Limited and Somerville Automotive Trim Limited. The business formerly conducted by these wholly-owned inactive subsidiaries is now being carried on by the Canadian Folding Cartons Division and the Automotive Products Division of the Company.

(b) Inventories

Inventories are valued at the lower of cost and net realizable value.

(c) Fixed assets

Buildings and equipment are stated at cost except for buildings owned in 1951 and equipment owned in 1955 which are stated at depreciated replacement values in accordance with appraisals made in those years. Other fixed assets and additions subsequent to the appraisals have been shown at cost.

Depreciation is provided on a straight-line basis over the estimated useful lives of fixed assets.

(d) Unamortized debt financing costs

Debt financing costs related to the 8½% Series A sinking fund debentures are being amortized over the twenty year term of the issue on a straight-line basis.

2. Accounts receivable and accounts payable

Included in accounts receivable is an amount of \$468,700 (1974 - \$481,843) owing from affiliated companies.

Included in accounts payable is an amount of Nil (1974 - \$57,801) owing to affiliated companies.

3. Inventories

	1975	1974
Raw materials, goods in process and supplies	\$ 8,854,471	\$ 9,336,880
Finished goods	5,962,876	6,261,135
	<u>\$14,817,347</u>	<u>\$15,598,015</u>

4. Fixed assets

	1975	1974
Land and buildings	\$ 6,222,449	\$ 6,159,777
Machinery and equipment	18,784,549	18,216,107
	<u>\$25,006,998</u>	<u>\$24,375,884</u>

5. Long term debt

	1975	1974
Debentures outstanding		
8½% sinking fund debentures		
Series A due April 1, 1993	\$7,800,000	\$7,900,000
First mortgage bonds outstanding		
6% sinking fund bonds		
Series B due June 15, 1977	676,000	676,000
	<u>8,476,000</u>	<u>8,576,000</u>
Less payable within one year	176,000	100,000
Long term debt	<u>\$8,300,000</u>	<u>\$8,476,000</u>

The first mortgage bonds are secured by a first floating charge on the assets of the Company.

Under the terms of the Trust Indenture the 8½% sinking fund debentures, Series A, are secured by a floating charge on the assets of the Company subject to prior charge securing the first mortgage bonds.

Aggregate sinking fund requirements during the next five fiscal years are as follows: 1976 - \$176,000; 1977 - \$700,000; 1978 - \$100,000; 1979 - \$180,000; 1980 - \$180,000.

6. Capital stock

	Number of shares		Amount	
	1975	1974	1975	1974
Preferred cumulative, redeemable shares, par value \$50 each, issuable in series				
Authorized	100,000	100,000		
Less purchased for cancellation	8,792	8,436		
	<u>91,208</u>	<u>91,564</u>		
Issued				
\$2.80 sinking fund cumulative preferred shares, 1953 series redeemable at \$51 per share	31,208	31,564	\$1,560,400	\$1,578,200
Common shares without par value				
Authorized	500,000	500,000		
Issued	356,300	356,300	356,300	356,300
			<u>\$1,916,700</u>	<u>\$1,934,500</u>

7. Retained earnings

Retained earnings include an amount of \$17,800 set aside as capital surplus in connection with the redemption of preferred shares as required by Section 62 of the Canada Corporations Act.

8. Commitments

Long term leases entered into by the Company extend into the year 1988. Under the terms of such leases, the aggregate rental amounts to \$1,725,126. The maximum annual rental payable thereunder for the years 1976 to 1980 is \$153,803.

Fixed asset purchases – \$1,346,600.

9. Anti-inflation legislation

The Company and its subsidiaries are subject to anti-inflation legislation of the Federal Government from October 14, 1975. This legislation provides for restraint with respect to prices, profit margins, employee compensation and shareholder dividends. There are uncertainties with respect to the application of this legislation, however it is not expected to have a significant impact on the results of operations for the year ended December 31, 1975.

10. Other information

(a) Remuneration of directors and officers

	1975	1974
Number of directors	6	6
Aggregate remuneration as directors	Nil	Nil
Number of officers	5	4
Aggregate remuneration as officers	\$284,563	\$205,707
Number of officers who are directors	3	3

(b) Classes of business

In the opinion of the directors the classes of business contributing in excess of 10% of sales were as follows:

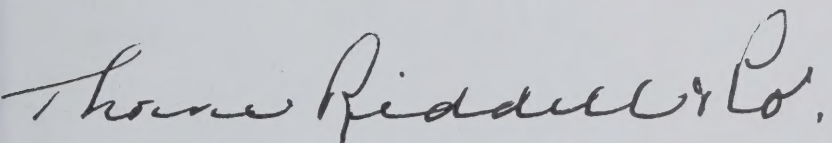
	Amount		Percentage	
	1975	1974	1975	1974
Packaging	\$46,553,817	\$44,991,046	75.7	73.0
Other	14,975,778	16,655,617	24.3	27.0
	<u>\$61,529,595</u>	<u>\$61,646,663</u>	<u>100.0%</u>	<u>100.0%</u>

Auditors' Report

To the Shareholders of
Somerville Industries Limited

We have examined the consolidated balance sheet of Somerville Industries Limited and its wholly owned subsidiaries as at December 31, 1975 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

A handwritten signature in cursive script that reads "Thorne Riddell & Co.".

Chartered Accountants
London, Ontario
March 8, 1976

Directors

John G. Church
Ian A. MacDonald
Arie B. Van der Ende
W. Garfield Weston
W. Galen Weston
Thomas E. White

Officers

John G. Church
Chairman of the Board

Ian A. MacDonald
President and Chief Executive Officer

Arie B. Van der Ende
Secretary-Treasurer

Leslie A. Biddie
Group Vice-President –
Packaging Division

James C. Bacon
Group Vice-President –
Special Products Division

Head Office

Crumlin Side Road
London, Ontario

Transfer Agent

The Canada Trust Company
Toronto, London, Montreal,
Winnipeg and Vancouver

Stock Listing

Toronto Stock Exchange

Auditors

Thorne Riddell & Co.

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